Kalkaska County, Michigan

Year Ended December 31, 2014

Financial Statements and Supplementary Information

Rehmann

Business wisdom delivered.

KALKASKA COUNTY, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 25, 2015

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan
Kalkaska, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kalkaska County Road Commission discretely presented component unit, which represents 100 percent of the total assets, net position and revenue of the discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kalkaska County, Michigan as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions for the pension and other postemployment benefit plans listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Kalkaska County, Michigan (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $15,084,304 (net position). Of this amount, $7,349,559 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net position increased by $940,610.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $5,588,708, an increase of $336,286 in comparison with the prior year. Approximately 23.2 percent of total governmental fund balance or $1,294,758 is unassigned fund balance.

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $1,294,758 or 20.3 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information (including this discussion and analysis) and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the County's assets, liabilities and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, and recreation and culture. The business-type activities of the County include delinquent tax collection and administration, and the Sportsplex.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Road Commission, for which the County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Management's Discussion and Analysis

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Fund, and Commission on Aging, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Delinquent Tax funds and Sportsplex activities. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County had no internal service funds at December 31, 2014.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Delinquent Tax and Sportsplex funds, each of which are considered to be major funds of the County.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain information concerning the County's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

Management's Discussion and Analysis

Government-Wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by $15,084,304 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 8,142,858	$ 7,277,929	$ 5,776,057	$ 5,178,168	$13,918,915	$12,456,097
Capital assets, net	2,208,458	2,346,785	4,606,956	4,755,956	6,815,414	7,102,741
Total assets	10,351,316	9,624,714	10,383,013	9,934,124	20,734,329	19,558,838
Long-term liabilities	222,179	235,716	2,735,000	3,160,000	2,957,179	3,395,716
Other liabilities	481,728	334,768	382,403	238,770	864,131	573,538
Total liabilities	703,907	570,484	3,117,403	3,398,770	3,821,310	3,969,254
Deferred inflows of resources	1,106,078	730,247	722,637	715,643	1,828,715	1,445,890
Net position:						
Net investment in capital assets	2,208,458	2,346,785	1,871,956	1,595,956	4,080,414	3,942,741
Restricted	3,654,331	3,662,220	-	-	3,654,331	3,662,220
Unrestricted	2,678,542	2,314,978	4,671,017	4,223,755	7,349,559	6,538,733
Total net position	$ 8,541,331	$ 8,323,983	$ 6,542,973	$ 5,819,711	$15,084,304	$14,143,694

A portion of the County's net position, $4,080,414 (27.1 percent), reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position of $3,654,331 (24.2 percent) represents resources that are subject to external restrictions on how they may be used. The County may use the remaining balance of unrestricted net position of $7,349,559 (48.7 percent) to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net position, both for the government as a whole, and for its separate governmental and business-type activities.

Management's Discussion and Analysis

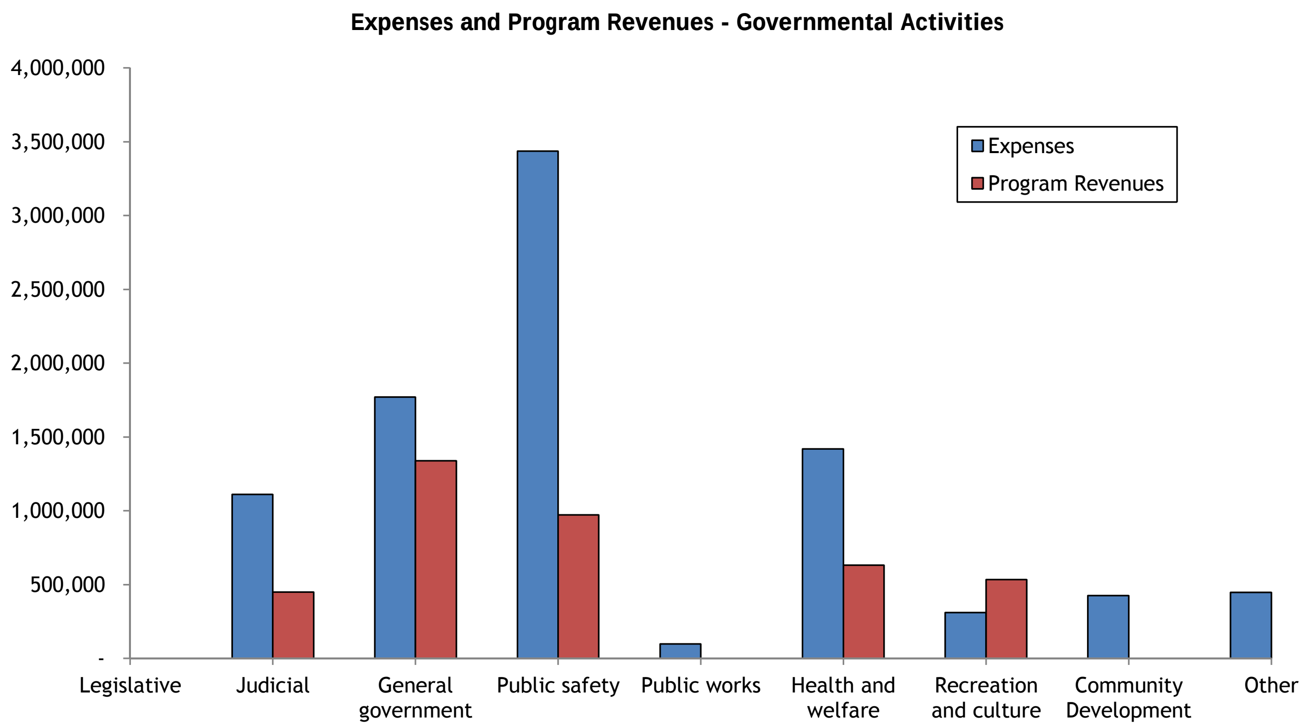
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	$ 2,309,778	$ 2,345,092	$ 854,938	$ 910,217	$ 3,164,716	$ 3,255,309
Operating grants	1,216,498	1,202,659	-	-	1,216,498	1,202,659
Capital grants	400,478	-	-	-	400,478	-
General revenues:						
Property taxes	5,046,271	4,963,029	725,221	703,895	5,771,492	5,666,924
Convention facility tax	129,679	108,267	-	-	129,679	108,267
Unrestricted investment earnings	14,929	22,136	82,775	10,299	97,704	32,435
Rents	164,848	131,486	-	-	164,848	131,486
Other revenue	246,043	214,030	-	-	246,043	214,030
Total revenues	9,528,524	8,986,699	1,662,934	1,624,411	11,191,458	10,611,110
Expenses:						
Legislative	291,025	182,611	-	-	291,025	182,611
Judicial	1,111,997	1,102,695	-	-	1,111,997	1,102,695
General government	1,770,649	1,489,583	-	-	1,770,649	1,489,583
Public safety	3,436,590	3,334,958	-	-	3,436,590	3,334,958
Public works	97,981	81,529	-	-	97,981	81,529
Health & welfare	1,419,749	1,358,486	-	-	1,419,749	1,358,486
Community & economic development	309,580	402,671	-	-	309,580	402,671
Recreation & culture	425,910	398,870	-	-	425,910	398,870
Other	447,695	539,962	-	-	447,695	539,962
Tax collection	-	-	229,375	148,056	229,375	148,056
Sportsplex	-	-	710,297	701,560	710,297	701,560
Total expenses	9,311,176	8,891,365	939,672	849,616	10,250,848	9,740,981
Change in net position	217,348	95,334	723,262	774,795	940,610	870,129
Net position:						
Beginning of year	8,323,983	8,228,649	5,819,711	5,044,916	14,143,694	13,273,565
End of year	$ 8,541,331	$ 8,323,983	$ 6,542,973	$ 5,819,711	$15,084,304	$14,143,694

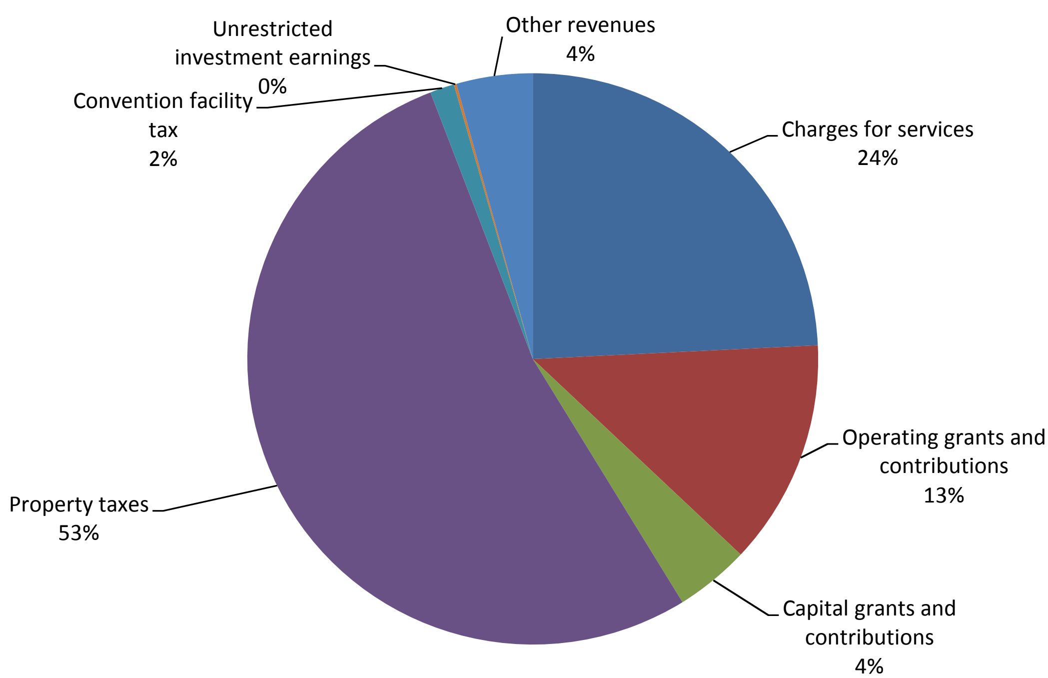
The County's net position increased by $940,610 during the current fiscal year. Governmental activities accounted for $217,348, or 23.1 percent of this increase, with business-type activities accounting for the remaining $723,262, or 76.9 percent.

Management's Discussion and Analysis

Governmental Activities. Governmental activities increased the County's net position by $217,348. Key elements of this increase are as follows:

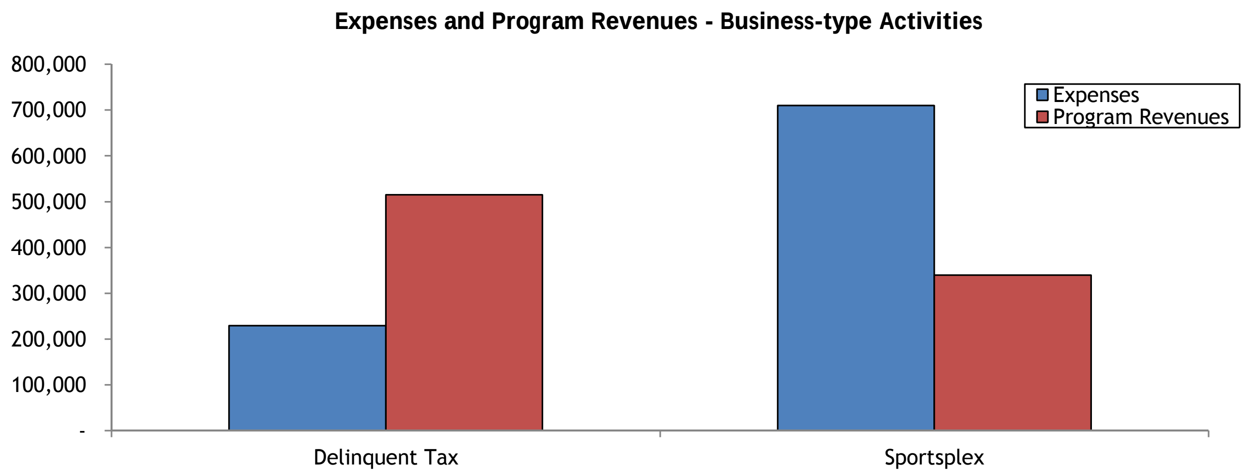
- Capital grants increased approximately $400,000 due to the fact that their was a private donation for the Library Construction Fund.

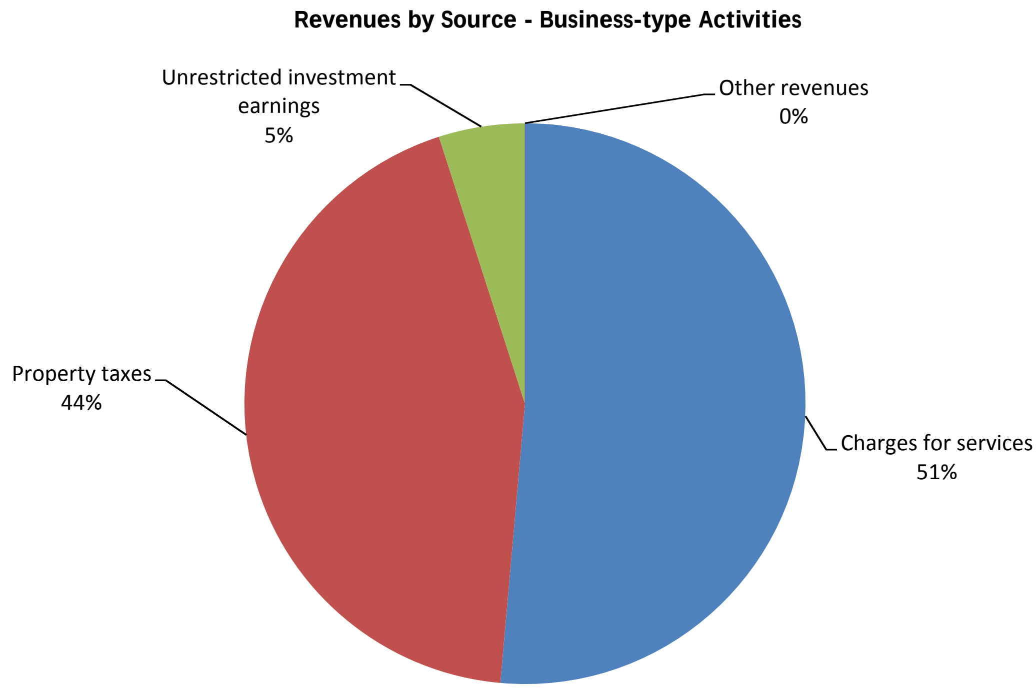




Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the County's net position by $723,262. This increase is primarily due to receipt of interest and penalties on delinquent taxes.





Management's Discussion and Analysis

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $5,588,708, an increase of $336,286 in comparison with the prior year. Of this amount, 23.2 percent ($1,294,758) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is classified as one of the following: A) Nonspendable (in nonspendable form) ($128,429); B) Restricted for use per various external agreements ($2,932,618); C) assigned through the subsequent year budgeting process ($179,513); or D) is committed through formal action of the County Board ($1,053,390).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,294,758 while total fund balance amounted to $2,102,915. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23.1 percent of total General Fund expenditures, while total fund balance represents 32.9 percent of that same amount.

The fund balance of the County's General Fund increased by $405,146 during the current fiscal year. This was due to conservative budgeting and several areas noted below that were underspent.

Proprietary Funds. The County's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at December 31, 2014 was $4,671,017, with the Delinquent Tax and Sportsplex Fund reporting unrestricted net position of $4,446,344 and $224,673, respectively.

General Fund Budgetary Highlights

The General Fund budget was created to ensure that departments were properly funded to address worse case situations.

- During the year, actual expenditures for the year were $841,706 less than budgeted.
- There was approximately $45,000 unspent within the Judicial Courts. In this activity the revenues were also less than budgeted.
- Fringe costs were underbudget in most activities due to changes in recent years to benefit packages.
- The County Jail expenditures were approximately $106,000 less than budgeted.
- The appropriations to other funds were less than budgeted due to approximately $100,000 of transfers that were unnecessary in the 2014 fiscal year.

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. The County's capital assets for its governmental and business-type activities as of December 31, 2014 amounted to $6,815,414 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motor vehicles, drains and utility systems. The total decrease of $287,327 in the County's investment in capital assets for the current fiscal year was 4.1 percent (a 2.0 percent decrease for governmental activities and a 2.1 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included:

- Two vehicles were purchased for a total of $53,706.
- Carpet was replaced in the Court Building costing approximately $28,000.
- The roof was replaced on the Sheriff's building for an approximate cost of $53,000.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 281,327	$ 281,327	$ -	$ -	$ 281,327	$ 281,327
Buildings	1,337,393	1,419,397	4,561,952	4,697,246	5,899,345	6,116,643
Land improvements	107,986	106,929	-	-	107,986	106,929
Machinery and equipment	481,752	539,132	45,004	58,710	526,756	597,842
Total capital assets, net	$ 2,208,458	$ 2,346,785	$ 4,606,956	$ 4,755,956	$ 6,815,414	$ 7,102,741

Additional information on the County's capital assets can be found in Note 8 of this report.

Long-term Debt. At the end of the current fiscal year, the County had total long-term debt outstanding of $2,957,179.

	Installment and Other Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
2010 refunding bonds	$ -	$ -	$ 2,735,000	$ 3,160,000	$ 2,735,000	$ 3,160,000
Compensated absences	222,179	235,716	-	-	222,179	235,716
Total long-term debt	$ 222,179	$ 235,716	$ 2,735,000	$ 3,160,000	$ 2,957,179	$ 3,395,716

The County's total long-term debt decreased by $438,537 (12.9 percent) during the current fiscal year. The net decrease was mainly attributable to annual principal payments.

Additional information on the County's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budget and Rates

- The County state revenue sharing will decrease approximately $200,000 due to transfers made in prior years.
- The 2015 approved budget includes a shortfall of $179,513 due to expenditures exceeding revenues.
- The County has been seeing an increase in building maintenance and recognizes the need to allocate future monies in attempts to have funds available for repairs and maintenance.
- Per the Fund Balance Policy the County will maintain a minimum unassigned fund balance in its General Fund of 20 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.
- The County is striving towards reduction of the unfunded actuarial accrued liability of $3,465,938 for the defined benefit pension plan.
- The County has been making only the annual required contributions but would like to reduce the unfunded actuarial accrued liability for the postemployment benefit plan.

The County considered these factors in preparing the County's budget for the 2015 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in Kalkaska County, Michigan's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Kalkaska County Clerk, 605 N Birch Street, Kalkaska, MI 49646.

BASIC FINANCIAL STATEMENTS

KALKASKA COUNTY, MICHIGAN

Statement of Net Position

December 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Assets				
Cash and cash equivalents	$ 5,179,639	$ 4,079,033	$ 9,258,672	$ 952,900
Receivables, net	2,527,279	1,752,680	4,279,959	1,497,559
Internal balances	62,816	(62,816)	-	-
Inventories	-	2,009	2,009	399,444
Prepaids	128,429	-	128,429	66,920
Net pension asset	-	-	-	39,534
Net other postemployment benefits asset	244,695	5,151	249,846	-
Capital assets not being depreciated	281,327	-	281,327	5,188,184
Capital assets being depreciated, net	1,927,131	4,606,956	6,534,087	14,055,712
Total assets	10,351,316	10,383,013	20,734,329	22,200,253
Liabilities				
Payables and accrued liabilities	481,728	57,403	539,131	451,286
Notes payable	-	325,000	325,000	-
Long-term liabilities:				
Due within one year	44,435	415,000	459,435	73,154
Due in more than one year	177,744	2,320,000	2,497,744	589,349
Net other postemployment benefits liability	-	-	-	1,574,639
Total liabilities	703,907	3,117,403	3,821,310	2,688,428
Deferred inflows of resources				
Taxes levied for a subsequent period	1,106,078	722,637	1,828,715	706,552
Net position				
Net investment in capital assets	2,208,458	1,871,956	4,080,414	18,624,498
Restricted for:				
County road commission	-	-	-	180,775
Public safety	938,017	-	938,017	-
Health and welfare	911,262	-	911,262	-
Community and economic development	743,792	-	743,792	-
Recreation and culture	740,811	-	740,811	-
Other purposes	148,944	-	148,944	-
State revenue sharing	138,269	-	138,269	-
Other state mandated programs	33,236	-	33,236	-
Unrestricted	2,678,542	4,671,017	7,349,559	-
Total net position	$ 8,541,331	$ 6,542,973	$ 15,084,304	$ 18,805,273

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2014

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government					
Governmental activities:					
Legislative	$ 291,025	$ -	$ -	$ -	$ (291,025)
Judicial	1,111,997	110,181	339,210	-	(662,606)
General government	1,770,649	908,053	430,862	-	(431,734)
Public safety	3,436,590	655,124	317,333	-	(2,464,133)
Public works	97,981	-	-	-	(97,981)
Health and welfare	1,419,749	516,272	114,695	-	(788,782)
Community and economic development	309,580	-	-	-	(309,580)
Recreation and culture	425,910	120,148	14,398	400,478	109,114
Other functions	447,695	-	-	-	(447,695)
Total governmental activities	9,311,176	2,309,778	1,216,498	400,478	(5,384,422)
Business-type activities:					
Tax collection	229,375	515,367	-	-	285,992
Sportsplex	710,297	339,571	-	-	(370,726)
Total business-type activities	939,672	854,938	-	-	(84,734)
Total primary government	$ 10,250,848	$ 3,164,716	$ 1,216,498	$ 400,478	$ (5,469,156)
Component unit					
Road Commission	$ 5,063,859	$ 107,548	$ 3,771,871	$ 1,900,628	$ 716,188

continued...

KALKASKA COUNTY, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Kalkaska County Road Commission
Changes in net position				
Net revenue (expense)	$ (5,384,422)	$ (84,734)	$ (5,469,156)	$ 716,188
General revenues:				
Property taxes	5,046,271	725,221	5,771,492	-
Convention facility tax	129,679	-	129,679	-
Unrestricted investment earnings	14,929	82,775	97,704	-
Rents	164,848	-	164,848	-
Gain on sale of capital assets	-	-	-	72,490
Other revenue	246,043	-	246,043	-
Total general revenues	5,601,770	807,996	6,409,766	72,490
Change in net position	217,348	723,262	940,610	788,678
Net position beginning of year	8,323,983	5,819,711	14,143,694	18,016,595
Net position, end of year	$ 8,541,331	$ 6,542,973	$ 15,084,304	$ 18,805,273

concluded

The accompanying notes are an integral part of these basic financial statements.

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KALKASKA COUNTY, MICHIGAN

Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 1,339,553	$ 22,169	$ 731,692	$ 3,086,225	$ 5,179,639
Receivables:					
Accounts	6,700	-	2,174	91,560	100,434
Taxes	417,176	-	702,170	351,123	1,470,469
Loans	-	721,649	-	-	721,649
Due from other governments	139,760	-	5,678	89,289	234,727
Due from other funds	489,375	-	19,739	35,865	544,979
Prepaids	117,698	64	-	10,667	128,429
Total assets	$ 2,510,262	$ 743,882	$ 1,461,453	$ 3,664,729	$ 8,380,326
Liabilities					
Accounts payable	$ 148,777	$ 90	$ 9,397	$ 45,865	$ 204,129
Accrued liabilities	168,126	-	-	48,018	216,144
Due to other governments	61,455	-	-	-	61,455
Due to other funds	28,989	-	-	453,174	482,163
Total liabilities	407,347	90	9,397	547,057	963,891
Deferred inflows of resources					
Taxes levied for a subsequent period	-	-	737,385	368,693	1,106,078
Unavailable revenue - loans receivable	-	721,649	-	-	721,649
Total deferred inflows of resources	-	721,649	737,385	368,693	1,827,727
Fund balances					
Nonspendable	117,698	64	-	10,667	128,429
Restricted	21,610	22,079	714,671	2,174,258	2,932,618
Committed	489,336	-	-	564,054	1,053,390
Assigned	179,513	-	-	-	179,513
Unassigned	1,294,758	-	-	-	1,294,758
Total fund balances	2,102,915	22,143	714,671	2,748,979	5,588,708
Total liabilities, deferred inflows of resources and fund balances	$ 2,510,262	$ 743,882	$ 1,461,453	$ 3,664,729	$ 8,380,326

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
To Net Position of Governmental Activities
December 31, 2014

Fund balances - total governmental funds	$ 5,588,708
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets not being depreciated	281,327
Capital assets being depreciated, net	1,927,131
Certain assets do not represent current financial resources, and therefore are not reported in the funds.	
Net other postemployment benefits asset	244,695
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.	
Deferred loans receivable	721,649
Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.	
Compensated absences	(222,179)
Net position of governmental activities	$ 8,541,331

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 4,299,429	$ -	$ 381,707	$ 365,135	$ 5,046,271
Licenses and permits	51,700	-	-	199,978	251,678
Intergovernmental:					
Federal	87,028	342	-	192,384	279,754
State	697,954	-	-	248,346	946,300
Local	-	-	-	114,986	114,986
Charges for services	852,493	-	489,784	556,199	1,898,476
Fines and forfeitures	4,110	-	-	155,514	159,624
Interest	8,022	32	867	6,008	14,929
Rents	102,023	-	-	62,825	164,848
Donations	-	-	-	400,478	400,478
Other	138,892	28,726	-	83,562	251,180
Total revenues	6,241,651	29,100	872,358	2,385,415	9,528,524
Expenditures					
Current:					
Legislative	227,793	-	-	-	227,793
Judicial	850,090	-	-	273,226	1,123,316
General government	1,836,118	-	-	-	1,836,118
Public safety	2,428,596	-	-	942,430	3,371,026
Public works	88,053	-	-	-	88,053
Health and welfare	235,085	-	861,939	296,849	1,393,873
Community and economic development	277,428	31,221	-	-	308,649
Recreation and culture	-	-	-	395,715	395,715
Other functions	447,695	-	-	-	447,695
Total expenditures	6,390,858	31,221	861,939	1,908,220	9,192,238
Revenues over (under) expenditures	(149,207)	(2,121)	10,419	477,195	336,286
Other financing sources (uses)					
Transfers in	596,928	-	-	42,575	639,503
Transfers out	(42,575)	-	-	(596,928)	(639,503)
Total other financing sources (uses)	554,353	-	-	(554,353)	-
Net change in fund balances	405,146	(2,121)	10,419	(77,158)	336,286
Fund balances, beginning of year	1,697,769	24,264	704,252	2,826,137	5,252,422
Fund balances, end of year	$ 2,102,915	$ 22,143	$ 714,671	$ 2,748,979	$ 5,588,708

The accompanying notes are an integral part of these basic financial statements.

Reconciliation

Net Changes in Fund Balances of Governmental Funds
To Change in Net Position of Governmental Activities
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds	$	336,286
Amounts reported for *governmental activities* in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Purchases of capital assets		191,298
Depreciation expense		(324,047)
Loss on the disposal of capital assets		(5,578)
Other postemployment benefit contributions are reported as expenditures in governmental funds, but additional contributions increase the net other postemployment benefits asset in the statement of net position.		
Change in the net other postemployment benefits asset		6,085
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following year.		
Change in deferred loans receivable		(233)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in the accrual for compensated absences		13,537
Change in net position of governmental activities	$	217,348

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 4,411,646	$ 4,418,615	$ 4,299,429	$ (119,186)
Licenses and permits	42,300	48,682	51,700	3,018
Intergovernmental:				
Federal	67,953	70,294	87,028	16,734
State	962,146	1,048,476	697,954	(350,522)
Charges for services	991,603	1,059,981	852,493	(207,488)
Fines and forfeitures	4,000	4,110	4,110	-
Interest	30,650	30,650	8,022	(22,628)
Rents	121,915	122,742	102,023	(20,719)
Other	316,688	366,137	138,892	(227,245)
Total revenues	6,948,901	7,169,687	6,241,651	(928,036)
Expenditures				
Current:				
Legislative	147,200	234,095	227,793	(6,302)
Judicial	902,379	915,576	850,090	(65,486)
General government	2,040,557	2,155,572	1,836,118	(319,454)
Public safety	2,597,016	2,672,636	2,428,596	(244,040)
Public works	97,995	98,545	88,053	(10,492)
Health and welfare	277,361	278,521	235,085	(43,436)
Community and economic development	342,254	342,319	277,428	(64,891)
Other	475,300	535,300	447,695	(87,605)
Total expenditures	6,880,062	7,232,564	6,390,858	(841,706)
Revenues over (under) expenditures	68,839	(62,876)	(149,207)	(86,331)
Other financing sources (uses)				
Transfers in	167,946	290,366	596,928	306,562
Transfers out	(180,845)	(181,345)	(42,575)	138,770
Total other financing sources (uses)	(12,899)	109,021	554,353	445,332
Net change in fund balances	55,940	46,145	405,146	359,001
Fund balances, beginning of year	1,697,769	1,697,769	1,697,769	-
Fund balances, end of year	$ 1,753,709	$ 1,743,914	$ 2,102,915	$ 359,001

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Housing Special Revenue Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
Federal	$ 143,000	$ 143,000	$ 342	$ (142,658)
Interest	40	40	32	(8)
Other	24,000	24,000	28,726	4,726
Total revenues	167,040	167,040	29,100	(137,940)
Expenditures				
Current:				
Community and economic development	167,040	167,040	31,221	(135,819)
Net change in fund balances	-	-	(2,121)	(2,121)
Fund balances, beginning of year	24,264	24,264	24,264	-
Fund balances, end of year	$ 24,264	$ 24,264	$ 22,143	$ (2,121)

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Commission on Aging Special Revenue Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 650,418	$ 650,418	$ 381,707	$ (268,711)
Charges for services	391,375	391,375	489,784	98,409
Interest	-	-	867	867
Total revenues	1,041,793	1,041,793	872,358	(169,435)
Expenditures				
Current:				
Health and welfare	1,041,793	1,041,793	861,939	(179,854)
Net change in fund balances	-	-	10,419	10,419
Fund balances, beginning of year	704,252	704,252	704,252	-
Fund balances, end of year	$ 704,252	$ 704,252	$ 714,671	$ 10,419

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Net Position

Proprietary Funds

December 31, 2014

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 3,363,773	$ 715,260	$ 4,079,033
Receivables:			
Taxes	916,721	681,673	1,598,394
Interest and administrative fees	154,286	-	154,286
Due from other funds	1,363,028	18,928	1,381,956
Inventories	-	2,009	2,009
Total current assets	5,797,808	1,417,870	7,215,678
Noncurrent assets:			
Capital assets being depreciated, net	-	4,606,956	4,606,956
Net other postemployment benefits asset	-	5,151	5,151
Total noncurrent assets	-	4,612,107	4,612,107
Total assets	5,797,808	6,029,977	11,827,785
Liabilities			
Current liabilities:			
Accounts payable	89	25,975	26,064
Accrued liabilities	-	10,026	10,026
Accrued interest payable	-	21,313	21,313
Due to other funds	1,026,375	418,397	1,444,772
Long-term debt, current portion	-	415,000	415,000
Notes payable	325,000	-	325,000
Total current liabilities	1,351,464	890,711	2,242,175
Noncurrent liabilities:			
Long-term debt, net of current portion	-	2,320,000	2,320,000
Total liabilities	1,351,464	3,210,711	4,562,175
Deferred inflows of resources			
Taxes levied for a subsequent period	-	722,637	722,637
Net position			
Net investment in capital assets	-	1,871,956	1,871,956
Unrestricted	4,446,344	224,673	4,671,017
Total net position	$ 4,446,344	$ 2,096,629	$ 6,542,973

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Operating revenues			
Charges for services	$ 367,656	$ 339,571	$ 707,227
Interest and penalties	147,711	-	147,711
Total operating revenues	515,367	339,571	854,938
Operating expenses			
Salaries	-	183,800	183,800
Fringe benefits	-	49,514	49,514
Depreciation	-	149,000	149,000
Other operating expenses	205,599	239,989	445,588
Total operating expenses	205,599	622,303	827,902
Operating income (loss)	309,768	(282,732)	27,036
Nonoperating revenues (expenses)			
Property taxes	-	725,221	725,221
Interest revenue	82,624	151	82,775
Interest expense	(23,776)	(87,994)	(111,770)
Total nonoperating revenues (expenses)	58,848	637,378	696,226
Change in net position	368,616	354,646	723,262
Net position, beginning of year	4,077,728	1,741,983	5,819,711
Net position, end of year	$ 4,446,344	$ 2,096,629	$ 6,542,973

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Cash flows from operating activities			
Receipts from customers and users	$ 901,759	$ 348,133	$ 1,249,892
Payments to vendors	(205,510)	(222,962)	(428,472)
Payments for personnel services	-	(236,875)	(236,875)
Net cash provided by (used in) operating activities	696,249	(111,704)	584,545
Cash flows from noncapital financing activities			
Local tax levy received	-	732,215	732,215
Payments from (to) other funds	(8,767)	6,784	(1,983)
Proceeds from notes payable	1,000,000	-	1,000,000
Principal paid on notes payable	(870,000)	-	(870,000)
Interest paid on notes payable	(23,776)	-	(23,776)
Net cash provided by noncapital financing activities	97,457	738,999	836,456
Cash flows from capital and related financing activities			
Principal paid on long-term debt	-	(425,000)	(425,000)
Interest paid on long-term debt	-	(90,385)	(90,385)
Net cash used in capital and related financing activities	-	(515,385)	(515,385)
Cash flows from investing activities			
Interest received	82,624	151	82,775
Net increase in cash and cash equivalents	876,330	112,061	988,391
Cash and cash equivalents, beginning of year	2,487,443	603,199	3,090,642
Cash and cash equivalents, end of year	$ 3,363,773	$ 715,260	$ 4,079,033

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KALKASKA COUNTY, MICHIGAN

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds		
	Delinquent Tax	Sportsplex	Total
Cash flows from operating activities			
Operating income (loss)	$ 309,768	$ (282,732)	$ 27,036
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	149,000	149,000
Change in:			
Taxes receivable	295,583	8,562	304,145
Interest receivable	90,809	-	90,809
Prepaid expenses	-	2,682	2,682
Accounts payable	89	14,345	14,434
Accrued liabilities	-	1,590	1,590
Net other postemployment benefits asset	-	(5,151)	(5,151)
Net cash provided by (used in) operating activities	$ 696,249	$ (111,704)	$ 584,545

concluded

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Fiduciary Net Position

Fiduciary Funds
December 31, 2014

	Agency Funds	Other Post-employment Benefits Trust
Assets		
Cash and cash equivalents	$ 281,675	$ 131,587
Investments:		
Money market funds	-	67,823
Equity mutual funds	-	26,312
Debt mutual funds	-	32,460
Total assets	$ 281,675	258,182
Liabilities		
Due to other governments	$ 23,635	-
Undistributed collections	168,650	-
Other liabilities	89,390	-
Total liabilities	$ 281,675	-
Net Position Restricted For Postemployment Benefits		$ 258,182

The accompanying notes are an integral part of these basic financial statements.

KALKASKA COUNTY, MICHIGAN

Statement of Changes in Fiduciary Net Position
Other Postemployment Benefits Trust
For the Year Ended December 31, 2014

Additions	
Employer contributions	$ 62,000
Retiree contributions	4,501
Investment earnings	4,691
Total additions	71,192
Deductions	
Benefit payments	52,398
Change in net position	18,794
Net position, beginning of year	239,388
Net position, end of year	$ 258,182

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kalkaska County, Michigan (the "County") was organized in 1871 and covers an area of approximately 561 square miles with the County seat located in Kalkaska, Michigan. The County operates under an elected Board of Commissioners of seven members and provides services, assistance and care to its more than 16,500 residents, primarily from the operations of its general and special revenue funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; and (6) recreation.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the County is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Blended Component Unit

Kalkaska County Building Authority – The Kalkaska County Building Authority is governed by a board which is appointed by the County Board of Commissioners. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Capital Projects Funds and has a December 31 year-end. A separate report is not prepared for the Building Authority.

Discretely Presented Component Unit

Kalkaska County Road Commission (the "Road Commission") – The Road Commission is responsible for the maintenance and construction of the County road system. The County appoints the members of the Road Commission and is a direct beneficiary of the services provided. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. The Road Commission is audited individually and complete financial statements can be obtained from the Road Commission at 1049 Island Lake Rd., Kalkaska, Michigan 49646.

Jointly Governed Organizations

North Central Michigan Mental Health Department (the "Community Mental Health") - The County, in conjunction with the counties of Otsego, Emmet, Charlevoix and Cheboygan, has created the Community Mental Health. The Board of the Community Mental Health is composed of 12 members from each of the boards of the participating governments. The funding formula for the Community Mental Health operations is in accordance with an agreement approved by all of the member counties and the local contribution was frozen, by statute, at the amount contributed in year 2002. Kalkaska County appropriated $61,875 to the Community Mental Health for the year ended December 31, 2014.

46th Judicial Trial Court (the "Court") - The Court has responsibilities for Kalkaska, Crawford and Otsego counties. The funding formula is based upon the previous year's caseload. For the year ended December 31, 2014 the funding was 29.2%, 30.2%, and 40.6% for Crawford, Kalkaska and Otsego County, respectively. Each county is responsible for the court budget as it related to its own court expenses. The remaining expenses that are shared by Kalkaska, Crawford and Otsego counties are incurred by and paid by Crawford County with the two other counties appropriating funds based on the funding formula. Kalkaska County appropriated $7,858 to the Court for the year ended December 31, 2014.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days or within one year for expenditure driven grants. For property taxes, "available" is defined as collected within the current period or expected to be purchased by the delinquent tax revolving fund in the subsequent year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the County's primary operating fund. it accounts for all the financial resources of the general government, except those accounted for and reported in another fund type.

The *housing special revenue fund* provides housing assistance in the form of low or zero interest loans to low income citizens within the County to provide housing or housing repairs.

The *Commission on Aging special revenue fund* accounts for the proceeds of a dedicated millage levied to pay for services provided to the areas aged population.

The County reports the following major proprietary funds:

The *delinquent tax fund* is used to pay each local governmental unit, including the County general fund, the respective amount of taxes not collected as of march 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

The s*portsplex fund* operates an ice arena/swimming pool facility.

Additionally, the County reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The other postemployment benefits trust fund accounts for the accumulation of resources for other postemployment benefit payments to qualified employees.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The general fund provides certain central services to other funds of the County which are presented as program expenses in the funds receiving services. The related general fund revenue has been netted against program expense in the government-wide statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position represents amounts that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The government's cash and cash equivalents include amounts in demand deposit accounts, certificates of deposit and short term investments with original maturities of three months or less from the date of acquisition. Investments, exclusive of certificates of deposit, are stated at fair value. Certificates of deposit are carried at cost plus accrued interest, since the original maturity dates are less than one year or the certificates are non-participating (i.e., there is no available market for trade prior to maturity).

State statutes and County policy authorize the County to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the County's investments.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are considered unearned.

Other Assets

Inventories are accounted for utilizing the consumption method and are valued at lower of cost (first-in, first-out) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired or constructed since 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets having a useful life in excess of two years and whose costs exceed $10,000. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their market value as of the donation date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

Property, infrastructure, buildings and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	5-40
Land improvements	7-40
Machinery and equipment	5-30

The County reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred the asset is written down to its net realizable value and a current charge to income is recognized.

Road Commission - Discretely Presented Component Unit

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, and similar items), are reported in the financial statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of three years. However, all equipment items (regardless of purchase price or useful life) that have a Schedule C code and rate (Michigan Department of Transportation's "Equipment Rental Rates" report) are capitalized. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are valued at estimated fair market value at the date of donation.

Capital assets are depreciated using the sum-of-the-years-digits method for road equipment and the straight-line method for all other assets over the following useful lives:

	Years
Buildings	30-50
Road equipment	5-8
Shop equipment	10
Engineering equipment	4-10
Office equipment	4-10
Infrastructure - roads	5-30
Infrastructure - bridges	12-50

Compensated Absences

Eligible employees are permitted to accumulate earned but unused sick and vacation pay benefits in varying amounts based on length of service and certain other established criteria. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick pay that is eligible to be paid out when employees separate from service with the County is also accrued in these same statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners (the government's highest level of decision-making authority). A formal resolution of the Board of Commissioners is required to establish, modify, or rescind a fund balance commitment. The County reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Commissioners has delegated the authority to assign fund balance to the County Administrator or his/her designee. Unassigned fund balance is the residual classification for the General Fund.

The County Board of Commissioners has adopted a minimum fund balance policy in which the unassigned fund balance of the General Fund will be equal to at least 20 percent of the subsequent year's adopted General Fund budgeted expenditures and transfers out. If the General Fund balance falls below the minimum range, the County will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The County utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

2. BUDGETARY INFORMATION

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Debt service funds are also included in the budgetary process; however, State statutes do not require legally adopted budgets for such funds. The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the month of July, budget worksheets, which list their last year's budget along with their expenditures for the last six months, are sent to each department. Each department prepares their budget and returns it to the County Clerk. The Clerk totals and puts all the budgets in order and then turns the budgets over to the Commissioners. Then, the respective committees, which are each made up of three Commissioners, meet with the various department heads to discuss any changes to their particular budget.

2. Public hearings are conducted at the County Building to obtain taxpayer comments.

3. Prior to December 31st, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.

4. Budget amendments are made by the County Commission as the need arises during the year.

5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.

6. Budget appropriations lapse at year end.

7. The original budget was amended during the year in compliance with the County procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the County Commission.

The budgets for some funds are administered and amended throughout the year as necessary by separate boards or authorities other than the County Commission.

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the County were adopted on the department level basis for all governmental funds, which is the legal level of control. During the year ended December 31, 2014 the County incurred expenditures which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
General government:			
Accounting	$ 151,891	$ 152,053	$ 162
Public safety:			
Law enforcement	741,342	753,209	11,867
Zero tolerance	34,025	35,362	1,337

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2014:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	$ 9,258,672	$ 952,900	$ 10,211,572
Statement of Fiduciary Net Position			
Other postemployment benefit trust fund:			
Cash and cash equivalents	131,587	-	131,587
Investments	126,595	-	126,595
Agency funds:			
Cash and cash equivalents	281,675	-	281,675
Total	$ 9,798,529	$ 952,900	$ 10,751,429

Deposits and investments

Primary Government	
Bank deposits:	
Checking and savings accounts (pooled)	$ 7,157,167
Other checking and savings	1,246,943
Certificates of deposit:	
Due within one year	64,620
Due in more than one year	762,829
Investments, at fair value	300,193
Other postemployment benefit trust fund:	
Checking and savings accounts (pooled)	131,587
Investments, at fair value	126,595
Cash on hand	8,595
Total Primary Government	9,798,529
Road Commission Component Unit	
Bank deposits:	
Checking and savings accounts	952,900
Total deposits and investments	$ 10,751,429

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year-end, $8,259,137 of the bank balance (excluding Road Commission) of $9,546,808 was exposed to custodial credit risk because it was uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

Custodial Credit Risk – Investments. Following is a summary of the County's investments as of December 31, 2014:

Pooled investments:	
Michigan CLASS Government Investment Pool (S & P Rating AAAm)	$ 300,193

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2014, none of the County's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the County.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Other Postemployment Benefits Trust Fund

The deposits of the County's other postemployment benefit trust fund are included in the County's pooled cash and cash equivalents. The fund's investments are maintained in a separate account and are subject to separate investment policies and State statutes. Accordingly, the required disclosures for the other postemployment benefits trust fund deposits and investments are presented separately.

Deposits. Amounts reported as cash and cash equivalents in the statement of fiduciary net position are composed entirely of cash included in the County's pooled checking and savings accounts.

Investments. The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the other postemployment benefits trust fund to invest in stocks, governmental and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The County board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the trust funds' assets. All investment decisions are subject to Michigan law and the respective investment policies established by the County.

The investments of the other postemployment benefits trust fund are held in a bank administered trust fund.

Following is a summary of pension and other postemployment benefits trust investments as of December 31, 2014:

	Interest Rate	Maturity	Morningstar Rating	Market Value
Mutual funds:				
Money market funds	0.01%	n/a	n/a	$ 67,823
Equity funds	n/a	n/a	★★★★	26,312
Debt funds	Various	Various	★★★	18,503
Debt funds	Various	Various	★★★★	13,957
				$ 126,595

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's other postemployment benefits investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the name of the other postemployment benefits trust fund. Short-term investments in money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

The amounts reported as money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to $500,000 each. The carrying amount of the other postemployment benefits trust account as of December 31, 2014 was $67,823, which was fully insured.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts	$ 100,434	$ -	$ -
Taxes - current	1,470,469	681,673	681,861
Taxes - delinquent	-	916,721	-
Interest and administrative fees	-	154,286	-
Loans	721,649	-	-
Due from other governments	234,727	-	815,698
	$ 2,527,279	$ 1,752,680	$ 1,497,559

Of the amount reported above for loans receivable in governmental activities, 712,261 is not expected to be collected within one year.

6. PAYABLES

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	$ 204,129	$ 26,064	$ 218,712
Accrued liabilities	216,144	10,026	43,809
Accrued interest payable	-	21,313	-
Due to other governments	61,455	-	188,765
	$ 481,728	$ 57,403	$ 451,286

Notes to Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2014, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	$ 489,375	$ 28,989
Commission on Aging fund	19,739	-
Nonmajor governmental funds	35,865	453,174
Delinquent tax	1,363,028	1,026,375
Sportsplex	18,928	418,397
	$ 1,926,935	$ 1,926,935

For the year ended December 31, 2014, interfund transfers consisted of the following:

	Transfers in		
Transfers Out	General fund	Nonmajor governmental funds	Totals
General fund	$ -	$ 42,575	$ 42,575
Nonmajor governmental fund	596,928	-	596,928
	$ 596,928	$ 42,575	$ 639,503

Transfers are generally used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 281,327	$ -	$ -	$ -	$ 281,327
Capital assets, being depreciated:					
Buildings and improvement	6,141,337	81,916	-	-	6,223,253
Land improvements	586,693	10,958	-	-	597,651
Machinery & equipment	3,638,998	98,424	(753,202)	-	2,984,220
	10,367,028	191,298	(753,202)	-	9,805,124
Less accumulated depreciation for:					
Buildings and improvement	(4,721,940)	(163,920)	-	-	(4,885,860)
Land improvements	(479,764)	(9,901)	-	-	(489,665)
Machinery & equipment	(3,099,866)	(150,226)	747,624	-	(2,502,468)
	(8,301,570)	(324,047)	747,624	-	(7,877,993)
Total capital assets being depreciated, net	2,065,458	(132,749)	(5,578)	-	1,927,131
Governmental activities capital assets, net	$ 2,346,785	$ (132,749)	$ (5,578)	$ -	$ 2,208,458

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, being depreciated:					
Buildings and improvement	$ 6,629,749	$ -	$ -	$ -	$ 6,629,749
Furniture, fixtures & equipment	305,076	-	-	-	305,076
	6,934,825	-	-	-	6,934,825
Less accumulated depreciation for:					
Buildings and improvement	(1,932,503)	(135,294)	-	-	(2,067,797)
Furniture, fixtures & equipment	(246,366)	(13,706)	-	-	(260,072)
	(2,178,869)	(149,000)	-	-	(2,327,869)
Total capital assets being depreciated, net	$ 4,755,956	$ (149,000)	$ -	$ -	$ 4,606,956

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function	
Legislative	$ 63,232
Judicial	19,258
General government	26,501
Public safety	146,814
Public works	10,184
Health and welfare	26,095
Community and economic development	698
Recreation and culture	31,265
	$ 324,047
Depreciation of business-type activities by function	
Enterprise funds:	
Sportsplex	$ 149,000

Notes to Financial Statements

Discretely presented component unit

Capital assets activity for the Road Commission component unit for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and improvements	$ 92,464	$ -	$ -	$ -	$ 92,464
Infrastructure land improvements	4,888,085	207,635	-	-	5,095,720
	4,980,549	207,635	-	-	5,188,184
Capital assets, being depreciated:					
Buildings and improvement	608,527	-	-	-	608,527
Road equipment	4,372,712	251,544	(489,375)	-	4,134,881
Shop equipment	61,525	9,530	(938)	-	70,117
Office equipment	65,739	14,110	(47,609)	-	32,240
Infrastructure - bridges	2,893,192	-	-	-	2,893,192
Infrastructure - roads	21,050,226	1,631,099	(1,001,881)	-	21,679,444
	29,051,921	1,906,283	(1,539,803)	-	29,418,401
Less accumulated depreciation for:					
Buildings and improvement	(564,989)	(9,335)	-	-	(574,324)
Road equipment	(3,266,526)	(367,834)	486,272	-	(3,148,088)
Shop equipment	(50,818)	(4,344)	719	-	(54,443)
Office equipment	(61,939)	(3,286)	46,932	-	(18,293)
Infrastructure - bridges	(924,884)	(70,888)	-	-	(995,772)
Infrastructure - roads	(10,560,629)	(1,013,021)	1,001,881	-	(10,571,769)
	(15,429,785)	(1,468,708)	1,535,804	-	(15,362,689)
Total capital assets being depreciated, net	13,622,136	437,575	(3,999)	-	14,055,712
Road Commission capital assets, net	$ 18,602,685	$ 645,210	$ (3,999)	$ -	$ 19,243,896

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	$ 235,716	$ 30,898	$ (44,435)	$ 222,179	$ 44,435
Business-type Activities					
2010 Refunding Bonds, $4,385,000, due in annual installments of $350,000 to $495,000 through April 2020, interest at 2.0 to 3.603%, payable semi-annually, secured by the full faith and credit of the County	$ 3,160,000	$ -	$ (425,000)	$ 2,735,000	$ 415,000
Component Unit - Road Commission					
Capital Lease	$ 625,490	$ 64,431	$ (70,523)	$ 619,398	$ 63,342
Compensated absences	96,531	-	(53,426)	43,105	9,812
Total component unit	$ 722,021	$ 64,431	$ (123,949)	$ 662,503	$ 73,154

Annual debt service requirements to maturity for long-term debt are as follows:

	Business-type Activities		Component Unit	
Year Ended December 31,	Principal	Interest	Principal	Interest
2015	$ 415,000	$ 79,807	$ 63,342	$ 21,076
2016	400,000	68,985	65,541	18,877
2017	450,000	56,297	67,815	16,603
2018	495,000	41,560	422,700	13,085
2019	490,000	34,543	-	-
2020	485,000	8,738	-	-
	$ 2,735,000	$ 289,930	$ 619,398	$ 69,641

The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

10. NOTE PAYABLE

At December 31, 2014, the County has $325,000 outstanding on a $1,000,000 revenue note (general obligation limited tax note) dated May 27, 2014. The note, which has a variable interest rate, adjusted at the beginning of each calendar month, of the greater of (a) 0.65% above LIBOR or (b) 0.70%, matures June 1, 2015. The note is secured by the full faith and credit of the County. The short term note is used to facilitate cash flow needs.

The following is a summary of the changes in the note payable for the year ended December 31, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance
General Obligation Tax Notes:				
Series 2013	$ 195,000	$ -	$ (195,000)	$ -
Series 2014	-	1,000,000	(675,000)	325,000
	$ 195,000	$ 1,000,000	$ (870,000)	$ 325,000

11. RISK MANAGEMENT

Primary Government

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan that authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance, and claim review and processing services for all member governments pursuant to its charter.

The County makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles that differ for each type of coverage.

Employee Benefits-Commercial Insurance Provider-Workers' Compensation

The County has insurance coverage for workers' compensation provided by an independent insurance company licensed in the State of Michigan.

At December 31, 2014, there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Component Unit - Road Commission

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical benefits provided to employees and natural disasters. The Road commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Pool operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The agreement of the Pool provides that it will be self- sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. At December 31, 2014, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road commission have not exceeded the amount of insurance coverage in any of the past three years.

12. PROPERTY TAXES

County general fund property taxes are levied on July 1 of each year (the lien date) and are due in full by September 14, though they do not become delinquent until March 1 of the following year. For levies other than the general fund, the lien date is December 1.

Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50 percent of the current estimated market value.

The taxable value of real and personal property for 2014, for which revenue was recognized in the general fund, was $737,334,910. The general operating tax rate for this levy was 5.4562 mills. The taxable value of real and personal property for 2013, for which revenue was recognized in all other funds, was $732,513,650. The tax rates for these voted levies were 1.0000 mills assessed for services provided to senior citizens, 0.1168 mills assessed for recycling services, 0.1333 mills assessed for animal control, 0.7300 mills assessed for debt service and 0.5000 mills assessed for recreation services.

13. CONTINGENT LIABILITIES

From time to time the County may be a defendant in various lawsuits. Although the outcome of any potential lawsuits is not presently determinable, in the opinion of the County and its Corporate Counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

14. PENSION BENEFIT PLANS

Primary Government

Defined Benefit Pension Plan

Plan Description. The County participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

All full-time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 55 with 25 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% percent of the member's 5-year final average compensation. The Sheriff Department participating employees and dispatchers who retire with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of the member's 5-year final average compensation or three year average in the case of command office members. The system also provides death and disability benefits which are established by state statute.

Funding Policy. The County is required to contribute at an actuarially determined rate; the current monthly payment ranges from 6.67% to 45.87% of annual covered payroll. In the case of Teamsters Union employees and the Court Division, the County is required to contribute flat monthly amounts of $3,547 and $4,269, respectively. County employees are required to contribute 0% to 5.0% of their pay to the Plan, depending on the bargaining unit the employee resides under. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County, depending on the MERS contribution program adopted by the County.

Annual Pension Cost. For the year ended December 31, 2014, the County's annual pension cost of $433,934 for MERS was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, and (b) projected salary increases of 0% to 4.5% per year compounded annually, with 3% to 4% attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, the date of the latest actuarial valuation, was 24 years.

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the Plan was 81 percent funded. The actuarial accrued liability (AAL) for benefits was $18,409,683, and the actuarial value of assets was $14,943,745, resulting in an unfunded actuarial accrued liability (UAAL) of $3,465,938. The covered payroll (annual payroll of active employees covered by the Plan) was $3,453,033, and the ratio of the UAAL to the covered payroll was 100 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Three-Year Trend Information			
Years Ended December 31,	**Annual Pension Cost (APC)**	**Percentage Contributed**	**Net Pension Obligation**
2012	$ 323,348	100%	$ -
2013	482,648	100%	-
2014	433,934	100%	-

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Conversion to Hybrid Defined Contribution Pension Plan

The County also maintains a MERS Hybrid Defined Contribution Pension Plan. The defined benefit plan is closed to new participants and all defined benefit plan participants were converted to the hybrid plan as of May 14, 2014. The County contributed $20,184 to the defined contribution plan during the year ended December 31, 2014.

Component Unit - Road Commission

Defined Benefit Pension Plan

Plan Description. The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments and death-after-retirement surviving spouse benefit to plan members and their beneficiaries. The service requirement is under the B-4 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the year ended December 31, 2012. For new hires after July 1, 2011, employees will be placed in a MERS Hybrid Plan, which is a combination of defined benefit and defined contribution plan.

Funding Policy. The Road Commission is required to contribute at an actuarially determined rate; the current rate ranges from a flat rate of $22,437 from January to May, and $26,643 from June to December for union employees hired prior to July 2011, and 6.09% and 18.64% of annual covered payroll for union employees hired after July 2011, and administrative staff, respectively. The Road Commission requires the union employees hired before July 2011 to contribute 12.55% of their annual salary to the plan with 10% being applied to the unfunded pension liability. The plan is closed to new hires after July 1, 2014. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The Road Commission also made voluntary contributions to the pension plan equal to 10% of wages for union employees who were hired prior to July 2011. The contribution requirements of plan members are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost. For the year ended December 31, 2014, the Road Commission's annual pension cost of $370,124 was equal to the Road Commission's required and actual contributions. The Road Commission made additional voluntary contributions of $24,034 during 2014 and $15,500 during 2013. The financial statements for December 31, 2014 reflect $39,534 as expense in the statement of activities and net pension asset in the statement of net position. The 2013 financial statements did not include the net pension asset. The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the latest actuarial valuation, was 25 years.

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the Plan was 49 percent funded. The actuarial accrued liability (AAL) for benefits was $8,946,988, and the actuarial value of assets was $4,352,197, resulting in an unfunded actuarial accrued liability (UAAL) of $4,594,791. The covered payroll (annual payroll of active employees covered by the Plan) was $615,186, and the ratio of the UAAL to the covered payroll was 747 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
2012	$ 317,827	100%	$ -
2013	337,187	104%	-
2014	370,124	106%	(39,534)

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Conversion to Hybrid Defined Contribution Pension Plan

During 2014, the Commission began the conversion process to the MERS Hybrid Defined Contribution Pension Plan for union employees hired after July 1, 2011 and all hires after June 1, 2014, the employees will be placed in a MERS Hybrid Plan, which is a combination of defined benefit and defined contribution plan. The defined benefit portion of the MERS Hybrid Plan has a 1% multiplier of the three year average final compensation and a vesting period of six years.

Defined Contribution Pension Plan

Union employees hired after July 2011 are in a MERS Hybrid Plan, which is a combination of a defined benefit and defined contribution plan. All new hires after the effective date of June 1, 2014 will participate in the MERS Hybrid Plan. Employees vest after five (5) years. Plan members are required to contribute 3 percent of their wages. The Road Commission contributes a matching percentage. During 2014, there were 13 employees in the plan. Both the Road Commission and the employees contributed $5,461 to the plan in 2014.

15. OTHER POSTEMPLOYMENT BENEFITS

Primary Government

Plan Description. The Kalkaska County Retiree Medical Plan is a single-employer defined benefit healthcare plan administered by Kalkaska County and can be amended at its discretion. The Plan provides postemployment health care benefits to employees who retired from Kalkaska County. Eligibility is based on the following: Commission on Aging, Kaliseum and other Teamsters may be eligible at age 55 with 25 years of service or age 60 with 15 years of service. Sheriff employees may be eligible with 25 years of service or age 60 with 15 years of service.

Funding Policy. At December 31, 2012, membership of the plan consisted of the following:

Active plan members	86
Retirees and beneficiaries receiving benefits	11
Total plan members	97

Active members are not obligated to make contributions to the Plan at this time. The County is required to contribute the annual required contribution of the employer (ARC) at an actuarially determined rate as required by the parameters within GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed 30 years. The contribution requirements of plan members and the County are established and may be amended by the County Board of Commissioners.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB asset:

Annual required contribution	$ 49,934
Interest on net OPEB asset	(9,544)
Adjustment to annual required contribution	10,374
Net OPEB cost (expense)	50,764
Contributions made	(62,000)
Change in net OPEB asset	(11,236)
Net OPEB asset, beginning of year	(238,610)
Net OPEB asset, end of year	$ (249,846)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2014 and the previous two years were as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2012	$ 50,080	86.24%	$ (8,814)
2013	49,307	87.60%	(238,610)
2014	50,764	122.13%	(249,846)

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Funded Status and Funding Progress. As of December 31, 2012, the Plan was 0 percent funded. The actuarial accrued liability for benefits was $533,923, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $533,923. The covered payroll (annual payroll of active employees covered by the Plan) was $3,156,876, and the ratio of the UAAL to the covered payroll was 16.9% percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, expected future working life and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2012 valuation was based on a discount rate of 4 percent. The actuarial assumptions included a post-retirement interest rate of 4 percent, annual healthcare cost increase of 8% for 2012 and down to 5% in 2015, annual cost increase for Delta Dental of 3%. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2012 was 27 years.

Component Unit - Road Commission

Plan Description. The Road Commission Retiree Medical Plan (Plan) is a single-employer defined benefit healthcare plan administered by the Road Commission and can be amended at its discretion. The Plan provides postemployment health care benefits to employees who retired from the Road Commission. The Road Commission has the authority to establish the funding policy for the Plan and to amend the obligations of both the Road Commission and members. The Road Commission's postemployment health care benefits are as follows:

For any employee retiring after January 1, 2011, who is between the ages of 55 and 65 and has at least 20 years of service at retirement, the Road Commission will provide single person coverage and contributions at the same level and in the same amount as for active employees until the retiree reaches age 65. Any increase over the CAP amount, set by the State law, of $5,858 shall be paid by the retiree.

Any employee age 62 to 65, hired prior to October 25, 2004, who retires under the MERS Pension Plan with at least ten (10) years of service, will be eligible for health insurance benefits for the retiree and his/her spouse. Benefit levels and Road Commission contributions will be no greater than those provided to active employees. Any employee age 62 to 65 hired on or after October 25, 2004, who retires under the MERS Pension Plan with at least twenty (20) years of service, will be eligible for health insurance benefits for the retiree and his/her spouse. Benefit levels and employer contributions will be no greater than those provided to active employees. Any increase over the CAP amount, set by the State law, of $5,858 or $12,250 shall be paid by the retiree.

Any employee hired prior to October 25, 2004, who had at least ten (10) years of service at retirement and who has reached the age of 65 years, will be eligible for single subscriber health insurance coverage, complementary, for the retiree only until the retiree's death, or the retiree is covered under a health insurance policy from another employer. Benefit levels and the Road Commission's contribution shall not exceed those provided on behalf of active employees. At the retiree's death, all employer contributions toward health insurance benefits will cease. If a retiree is covered by an alternate health insurance plan, he/she will be ineligible to receive Employer contributions for health insurance. Employees hired after October 25, 2004 must have at least twenty (20) years of services in order to be eligible for the benefits set forth in this subsection. Any increase over the CAP amount, set by the State law, of $5,858 shall be paid by the retiree.

Funding Policy. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment. Additional amounts to prefund benefits may be determined annually by the Board of Road Commissioners. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due, which amounted to $105,515 in 2014. For the year ended December 31, 2014, the Road Commission made no additional contributions to the Plan. Retirees receiving benefits were not required to make contributions to the Plan, and therefore, no retiree contributions were made.

The contribution requirements of Road Commission plan members are established and may be amended by Road Commission. At December 31, 2014, membership of the plan consisted of the following:

Active plan members	16
Retirees and beneficiaries receiving benefits	15
Total plan members	31

Annual OPEB Cost and Net OPEB Obligation. The Road Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to the plan:

Annual required contribution	$ 369,327
Interest on net OPEB obligation	90,056
Net OPEB cost (expense)	459,383
Contributions made	(105,515)
Increase in net OPEB obligation	353,868
Net OPEB obligation, beginning of year	1,220,771
Net OPEB obligation, end of year	$ 1,574,639

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the previous two years was as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	$ 351,134	26.00%	$ 939,226
2013	369,327	23.77%	1,220,771
2014	459,383	22.97%	1,574,639

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the Plan was 0 percent funded. The actuarial accrued liability for benefits was $2,678,185, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $2,678,185. The covered payroll (annual payroll of active employees covered by the Plan) was $900,076, and the ratio of the UAAL to the covered payroll was 298 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, expected future working life and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2012, valuation was based on the Alternate Method as provided under GASB Statement No. 45, with a discount rate of 7.0 percent. The actuarial assumptions included a post-retirement interest rate of 7 percent, salary increase of 3 percent and an annual healthcare cost trend rate based on the NIH National Health Expenditure Projects, 2005-2020. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2013 was thirty years.

Notes to Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

The County reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Housing Fund	Commission on Aging Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaids	$ 117,698	$ 64	$ -	$ 10,667	$ 128,429
Restricted for:					
Judicial	-	-	-	97,612	97,612
Public safety	21,610	-	-	967,739	989,349
Community and economic development	-	22,079	-	-	22,079
Health and welfare	-	-	714,671	196,591	911,262
Recreation and culture	-	-	-	340,333	340,333
State revenue sharing	-	-	-	138,269	138,269
Capital improvements	-	-	-	433,714	433,714
Total restricted	21,610	22,079	714,671	2,174,258	2,932,618
Committed for:					
Public safety	2,585	-	-	16,337	18,922
Self insurance	183,260	-	-	-	183,260
Capital improvements	44,440	-	-	307,027	351,467
Elections	30,895	-	-	-	30,895
Historic preservation	-	-	-	200,799	200,799
Equipment replacement	194,288	-	-	-	194,288
Other purposes	33,868	-	-	39,891	73,759
Total committed	489,336	-	-	564,054	1,053,390
Assigned for:					
Subsequent appropriation to eliminate projected budgetary deficit	179,513	-	-	-	179,513
Unassigned	1,294,758	-	-	-	1,294,758
Total fund balances, governmental funds	$ 2,102,915	$ 22,143	$ 714,671	$ 2,748,979	$ 5,588,708

Notes to Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of December 31, 2014, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	$ 281,327	$ -	$ 5,188,184
Capital assets being depreciated, net	1,927,131	4,606,956	14,055,712
	2,208,458	4,606,956	19,243,896
Related debt:			
Total bonds and loans payable	-	2,735,000	-
Capital lease	-	-	619,398
	-	2,735,000	619,398
Net investment in capital assets	$ 2,208,458	$ 1,871,956	$ 18,624,498

18. SUBSEQUENT EVENT

On May 14, 2015, the County issued $500,000 of General Obligation Tax Notes, Series 2015, interest payable monthly at the greater of (a) the rate that is equal to the sum of (i) seventy hundredths of one percent (.70%) per annum plus (ii) the one month London Interbank Offer Rate (LIBOR), as published in the *Wall Street Journal* on the first business day of each month, or (b) seventy two hundredths of one percent (.72%) per annum (initial monthly rate .881%). The note matures on March 1, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Municipal Employees' Retirement System & Other Postemployment Benefits Plan

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	$ 12,710,495	$ 14,710,195	$ 1,999,700	86.4%	$ 3,678,155	54.4%
12/31/2010	13,389,467	15,526,197	2,136,730	86.2%	3,499,935	61.1%
12/31/2011	13,888,683	16,398,307	2,509,624	84.7%	3,376,009	74.3%
12/31/2012	14,160,271	17,003,544	2,843,273	83.3%	3,343,555	85.0%
12/31/2013	14,563,080	17,779,073	3,215,993	81.9%	3,309,586	97.2%
12/31/2014	14,943,745	18,409,683	3,465,938	81.2%	3,453,033	100.4%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2009	$ 541,324	100%
2010	322,738	100%
2011	323,730	100%
2012	323,348	100%
2013	482,648	100%
2014	433,934	100%

Single-Employer Other Postemployment Healthcare Benefit Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	$ -	$ 619,540	$ 619,540	0.0%	n/a	n/a
12/31/2012	-	533,923	533,923	0.0%	$ 3,156,876	16.9%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2012	$ 49,747	86.8%
2013	49,109	568.3%
2014	49,934	124.2%

Required Supplementary Information
Road Commission Municipal Employees' Retirement System & Other Postemployment Benefits Plan

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2011	$ 4,538,801	$ 9,003,467	$ 4,464,666	50.4%	$ 913,020	489.0%
12/31/2012	4,394,418	8,905,567	4,511,149	49.3%	846,990	532.6%
12/31/2013	4,352,197	8,946,988	4,594,791	48.6%	615,186	746.9%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2011	$ 317,827	100%
2012	337,187	104%
2013	370,124	106%

Single-Employer Other Postemployment Healthcare Benefit Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	$ -	$ 5,449,968	$ 5,449,968	0.0%	$ 1,137,947	478.9%
12/31/2011	-	3,300,192	3,300,192	0.0%	875,354	377.0%
12/31/2012	-	2,678,185	2,678,185	0.0%	900,076	297.6%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2012	$ 351,134	26.0%
2013	369,327	23.8%
2014	369,327	28.6%

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

Schedule of Expenditures by Activity
Budget and Actual
General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Legislative:				
County board	$ 147,200	$ 234,095	$ 227,793	$ (6,302)
Judicial:				
Judicial control	870,916	883,756	838,532	(45,224)
46th circuit trial court/ friend of the court	26,263	26,263	8,255	(18,008)
Jury board	5,200	5,557	3,303	(2,254)
Total judicial	902,379	915,576	850,090	(65,486)
General government:				
Elections	36,700	44,770	39,027	(5,743)
Accounting	129,891	151,891	152,053	162
County clerk	184,341	247,641	219,327	(28,314)
Equalization	157,680	157,945	147,947	(9,998)
Prosecuting attorney	390,627	393,362	356,257	(37,105)
Register of deeds	181,113	181,113	174,527	(6,586)
Survey Remonumentation	48,788	48,788	48,788	-
Treasurer	156,261	156,961	143,852	(13,109)
County government	106,551	106,551	51,034	(55,517)
Building and grounds	461,582	479,732	434,448	(45,284)
Various accounts	187,023	186,818	68,858	(117,960)
Total general government	2,040,557	2,155,572	1,836,118	(319,454)
Public safety:				
Law enforcement	732,532	741,342	753,209	11,867
Sheriff fleet	141,753	141,753	129,522	(12,231)
Court civil transports	120,186	120,186	76,077	(44,109)
Administration	315,901	318,516	288,624	(29,892)
Community corrections	72,360	79,810	63,573	(16,237)
Domestic violence grant	23,292	23,292	18,014	(5,278)
Marine law enforcement	5,000	6,990	6,513	(477)
Snowmobile law enforcement	10,000	10,100	5,296	(4,804)
Secondary road patrol PA 416 grant	90,422	91,142	77,775	(13,367)
DNR ORV grant	20,000	20,150	12,055	(8,095)
Zero tolerance	19,125	34,025	35,362	1,337
Hunters safety class	-	800	760	(40)
Corrections Department/Jail	937,296	975,071	869,174	(105,897)
Zoning	91,969	92,169	75,549	(16,620)
Emergency preparedness	17,180	17,290	17,093	(197)
Total public safety	2,597,016	2,672,636	2,428,596	(244,040)

continued...

Schedule of Expenditures by Activity
Budget and Actual
General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Public works	$ 97,995	$ 98,545	$ 88,053	$ (10,492)
Health and welfare:				
Health department	239,355	240,355	206,179	(34,176)
Veteran's affairs	38,006	38,166	28,906	(9,260)
Total health and welfare	277,361	278,521	235,085	(43,436)
Community and economic development:				
MSU extension	76,337	76,402	75,388	(1,014)
Other appropriation	265,917	265,917	202,040	(63,877)
Total community and economic development	342,254	342,319	277,428	(64,891)
Other:				
Fringe	371,800	431,800	384,125	(47,675)
Other appropriation	103,500	103,500	63,570	(39,930)
Total other	475,300	535,300	447,695	(87,605)
Total expenditures	$ 6,880,062	$ 7,232,564	$ 6,390,858	$ (841,706)

concluded

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds
December 31, 2014

	Special Revenue Funds			
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Friend of the Court
Assets				
Cash and cash equivalents	$ 12,718	$ 20,704	$ 20,147	$ 160,685
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Due from other governments	-	-	-	51,420
Due from other funds	-	-	-	-
Prepaids	-	-	-	-
Total assets	$ 12,718	$ 20,704	$ 20,147	$ 212,105
Liabilities				
Accounts payable	$ -	$ 638	$ 322	$ 3,765
Accrued liabilities	-	-	-	7,225
Due to other funds	-	-	-	103,503
Total liabilities	-	638	322	114,493
Deferred inflows of resources				
Taxes levied for a subsequent period	-	-	-	-
Fund balances				
Nonspendable	-	-	-	-
Restricted	12,718	-	-	97,612
Committed	-	20,066	19,825	-
Total fund balances	12,718	20,066	19,825	97,612
Total liabilities, deferred inflows of resources and fund balances	$ 12,718	$ 20,704	$ 20,147	$ 212,105

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling	Corrections Officers Training
$ 81,743	$ 2,303	$ 200,799	$ 146,033	$ 606,582	$ 64,380	$ 151,852	$ 2,563
-	-	-	-	91,560	-	-	-
-	-	-	-	-	-	82,031	-
-	-	-	-	35,855	-	-	-
-	-	-	-	35,865	-	-	-
-	-	-	-	-	-	-	-
$ 81,743	$ 2,303	$ 200,799	$ 146,033	$ 769,862	$ 64,380	$ 233,883	$ 2,563
$ 35	$ -	$ -	$ 37	$ 12,344	$ 11,881	$ 2,854	$ 90
-	-	-	6,096	15,202	-	3,712	-
-	-	-	106,664	-	1,167	63,125	978
35	-	-	112,797	27,546	13,048	69,691	1,068
-	-	-	-	-	-	86,090	-
-	-	-	-	-	-	-	-
81,708	2,303	-	33,236	742,316	51,332	78,102	1,495
-	-	200,799	-	-	-	-	-
81,708	2,303	200,799	33,236	742,316	51,332	78,102	1,495
$ 81,743	$ 2,303	$ 200,799	$ 146,033	$ 769,862	$ 64,380	$ 233,883	$ 2,563

continued...

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds
December 31, 2014

	Special Revenue Funds			
	Community Corrections Plan	Animal Control	Law Library	County Library
Assets				
Cash and cash equivalents	$ 40,388	$ 75,754	$ 1,085	$ 404,353
Receivables:				
Accounts	-	-	-	-
Taxes	-	93,531	-	175,561
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Prepaids	-	-	-	-
Total assets	$ 40,388	$ 169,285	$ 1,085	$ 579,914
Liabilities				
Accounts payable	$ -	$ 240	$ 609	$ 3,567
Accrued liabilities	-	3,435	-	9,199
Due to other funds	-	55,874	-	42,945
Total liabilities	-	59,549	609	55,711
Deferred inflows of resources				
Taxes levied for a subsequent period	-	98,257	-	184,346
Fund balances				
Nonspendable	-	-	-	-
Restricted	40,388	11,479	476	339,857
Committed	-	-	-	-
Total fund balances	40,388	11,479	476	339,857
Total liabilities, deferred inflows of resources and fund balances	$ 40,388	$ 169,285	$ 1,085	$ 579,914

Special Revenue Funds							Capital Project Funds
Inmate Programs & Services	Portable Breathalyzer Testing	Police Hiring Supplement	Child Care	Veterans Trust	Marine Clearwater Township	Revenue Sharing Reserve	County Building
$ 9,879	$ 19,070	$ -	$ 168,127	$ 3,136	$ 24,000	$ 138,269	$ 86,493
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	2,014	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ 9,879	$ 19,070	$ -	$ 170,141	$ 3,136	$ 24,000	$ 138,269	$ 86,493
$ -	$ 2,733	$ -	$ 6,750	$ -	$ -	$ -	$ -
-	-	-	3,149	-	-	-	-
-	-	-	54,768	-	-	-	-
-	2,733	-	64,667	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,879	-	-	105,474	3,136	24,000	138,269	-
-	16,337	-	-	-	-	-	86,493
9,879	16,337	-	105,474	3,136	24,000	138,269	86,493
$ 9,879	$ 19,070	$ -	$ 170,141	$ 3,136	$ 24,000	$ 138,269	$ 86,493

continued...

KALKASKA COUNTY, MICHIGAN

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	Capital Project Funds	
	County Library Building	Total
Assets		
Cash and cash equivalents	$ 645,162	$ 3,086,225
Receivables:		
Accounts	-	91,560
Taxes	-	351,123
Due from other governments	-	89,289
Due from other funds	-	35,865
Prepaids	10,667	10,667
Total assets	$ 655,829	$ 3,664,729
Liabilities		
Accounts payable	$ -	$ 45,865
Accrued liabilities	-	48,018
Due to other funds	24,150	453,174
Total liabilities	24,150	547,057
Deferred inflows of resources		
Taxes levied for a subsequent period	-	368,693
Fund balances		
Nonspendable	10,667	10,667
Restricted	400,478	2,174,258
Committed	220,534	564,054
Total fund balances	631,679	2,748,979
Total liabilities, deferred inflows of resources and fund balances	$ 655,829	$ 3,664,729

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KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2014

	Special Revenue Funds			
	Bullet Proof Vest	Parks and Recreation	Log Lake Park	Friend of the Court
Revenues				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal	1,265	-	-	191,119
State	-	-	-	-
Local	-	-	-	10,610
Charges for services	-	1,678	-	63,005
Fines and forfeitures	-	-	-	-
Interest	-	-	-	-
Rents	-	39,350	23,475	-
Donations	-	-	-	-
Other	-	-	-	-
Total revenues	1,265	41,028	23,475	264,734
Expenditures				
Current:				
Judicial	-	-	-	217,997
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	27,080	17,260	-
Total expenditures	-	27,080	17,260	217,997
Revenues over (under) expenditures	1,265	13,948	6,215	46,737
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	1,265	13,948	6,215	46,737
Fund balances, beginning of year	11,453	6,118	13,610	50,875
Fund balances, end of year	$ 12,718	$ 20,066	$ 19,825	$ 97,612

Special Revenue Funds							
Animal Control Donation	Extension Strong Family Safe Child	Courthouse Preservation	Building Inspection	911 Central Dispatch	ROD Equipment/ Technology	Recycling	Corrections Officers Training
$ -	$ -	$ -	$ -	$ -	$ -	$ 84,516	$ -
-	-	-	199,978	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	147,602	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	428,989	-	21,408	3,806
-	-	47,176	-	-	-	-	-
-	-	-	-	380	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,364	-	-	-	-	31,648	-	-
6,364	-	47,176	199,978	576,971	31,648	105,924	3,806
-	-	47,660	-	-	-	-	-
1,364	33	-	217,346	460,024	12,233	-	4,467
-	-	-	-	-	-	102,205	-
-	-	-	-	-	-	-	-
1,364	33	47,660	217,346	460,024	12,233	102,205	4,467
5,000	(33)	(484)	(17,368)	116,947	19,415	3,719	(661)
-	-	-	-	-	-	-	-
-	-	-	-	(179,268)	-	-	-
-	-	-	-	(179,268)	-	-	-
5,000	(33)	(484)	(17,368)	(62,321)	19,415	3,719	(661)
76,708	2,336	201,283	50,604	804,637	31,917	74,383	2,156
$ 81,708	$ 2,303	$ 200,799	$ 33,236	$ 742,316	$ 51,332	$ 78,102	$ 1,495

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KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2014

	Special Revenue Funds			
	Community Corrections Plan	Animal Control	Law Library	County Library
Revenues				
Taxes	$ -	$ 96,263	$ -	$ 184,356
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal	-	-	-	-
State	1,250	-	-	14,398
Local	-	-	1,918	-
Charges for services	-	4,885	-	10,132
Fines and forfeitures	-	-	-	108,338
Interest	-	-	-	768
Rents	-	-	-	-
Donations	-	-	-	-
Other	-	-	-	873
Total revenues	1,250	101,148	1,918	318,865
Expenditures				
Current:				
Judicial	-	-	7,569	-
Public safety	1,875	101,465	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	-	-	302,559
Total expenditures	1,875	101,465	7,569	302,559
Revenues over (under) expenditures	(625)	(317)	(5,651)	16,306
Other financing sources (uses)				
Transfers in	-	-	6,700	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	6,700	-
Net change in fund balances	(625)	(317)	1,049	16,306
Fund balances, beginning of year	41,013	11,796	(573)	323,551
Fund balances, end of year	$ 40,388	$ 11,479	$ 476	$ 339,857

Inmate Programs & Services	Portable Breathalyzer Testing	Police Hiring Supplement	Child Care	Veterans Trust	Marine Clearwater Township	Revenue Sharing Reserve	County Building
Special Revenue Funds							Capital Project Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	85,096	-	-	-	-
-	-	73,201	11,000	13,257	5,000	-	-
5,080	17,216	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	238	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	37,590
5,080	17,216	73,201	96,096	13,257	5,000	238	37,590
-	-	-	-	-	-	-	-
-	20,339	123,284	-	-	-	-	-
1,832	-	-	180,519	12,293	-	-	-
-	-	-	-	-	-	-	-
1,832	20,339	123,284	180,519	12,293	-	-	-
3,248	(3,123)	(50,083)	(84,423)	964	5,000	238	37,590
-	-	35,875	-	-	-	-	-
(2,500)	(72,000)	-	-	-	-	(343,160)	-
(2,500)	(72,000)	35,875	-	-	-	(343,160)	-
748	(75,123)	(14,208)	(84,423)	964	5,000	(342,922)	37,590
9,131	91,460	14,208	189,897	2,172	19,000	481,191	48,903
$ 9,879	$ 16,337	$ -	$ 105,474	$ 3,136	$ 24,000	$ 138,269	$ 86,493

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KALKASKA COUNTY, MICHIGAN

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2014

	Capital Project Funds	
	County Library Building	Total
Revenues		
Taxes	$ -	$ 365,135
Licenses and permits	-	199,978
Intergovernmental:		
Federal	-	192,384
State	-	248,346
Local	-	114,986
Charges for services	-	556,199
Fines and forfeitures	-	155,514
Interest	4,622	6,008
Rents	-	62,825
Donations	400,478	400,478
Other	7,087	83,562
Total revenues	412,187	2,385,415
Expenditures		
Current:		
Judicial	-	273,226
Public safety	-	942,430
Health and welfare	-	296,849
Recreation and culture	48,816	395,715
Total expenditures	48,816	1,908,220
Revenues over (under) expenditures	363,371	477,195
Other financing sources (uses)		
Transfers in	-	42,575
Transfers out	-	(596,928)
Total other financing sources (uses)	-	(554,353)
Net change in fund balances	363,371	(77,158)
Fund balances, beginning of year	268,308	2,826,137
Fund balances, end of year	$ 631,679	$ 2,748,979

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KALKASKA COUNTY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
December 31, 2014

	Trust & Agency	NPI Wireless Zoning	Sheriff's Commissary	Sheriff Forfeiture	Cemetery Trust
Assets					
Cash and cash equivalents	$ 191,169	$ 3,110	$ 25,767	$ 13,197	$ 31,183
Liabilities					
Due to other governments	$ 23,635	$ -	$ -	$ -	$ -
Undistributed collections	78,144	3,110	25,767	13,197	31,183
Other liabilities	89,390	-	-	-	-
Total liabilities	$ 191,169	$ 3,110	$ 25,767	$ 13,197	$ 31,183

Traffic Safety Committee	Library Penal Fine	Animal Control Adoption	Total
$ 1,374	$ 8,426	$ 7,449	$ 281,675
$ -	$ -	$ -	$ 23,635
1,374	8,426	7,449	168,650
-	-	-	89,390
$ 1,374	$ 8,426	$ 7,449	$ 281,675

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INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 25, 2015

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan
Kalkaska, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Kalkaska County, Michigan* (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2015. Our report includes a reference to other auditors who audited the financial statements of Kalkaska County Road Commission discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001, -002, -003, and -004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-005 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Kalkaska County, Michigan's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC

Schedule of Findings and Responses
For the Year Ended December 31, 2014

2014-001 – Material Audit Adjustments (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed certain material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. These adjustments included entries to delinquent property tax receivables (primarily related to Michigan Tax Tribunal and Board of Review adjustments) and liability balances in the agency fund that were more properly recognized as revenue in other funds.

Cause. This condition was the result of various unrelated and decentralized oversights in the process of properly closing the County's books and records.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts material to certain individual opinion units.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments. Going forward, we recommend that management carefully review its tax and agency accounts and make any necessary adjustments prior to the commencement of the audit process.

View of Responsible Officials. Management is contracting with an outside party to assist with year-end procedures and identifying inappropriate balances to reduce the number of necessary audit adjustments.

2014-002 –Timely/Accurate Reconciliations and Segregation of Duties (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record a transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. Several balance sheet account reconciliations and other transaction supporting documents, were either not completed in a timely manner, ultimately incorrect and/or not subject to the independent review of a responsible member of management: The following specific items were noted:

- Bank reconciliations were not completed on a timely basis during the year.
- Amounts receivable and payable from/to other local entities had not been reconciled for Board of Review and other adjustments.
- Several agency fund accounts have not been adjusted or reconciled to underlying detail in several years.
- Several account reconciliations and reports that were prepared did not bear evidence of having been subject to an independent review by a responsible member of management, other than the preparer.
- Several accounts payable invoices did not include evidence of review or approval of the invoices.

Cause. This condition is a result of the County's limited resources, and the small size and frequent turnover of its accounting staff.

Effect. As a result of this condition, the County is exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. In addition, as journal entries, which are an essential part of any accounting system, represent an opportunity to enter information into the County's records in a way that bypasses normal internal controls, we recommend that the County develop a system to ensure that all journal entries and similar adjustments made to the County's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

View of Responsible Officials. Management acknowledges the delinquency in reconciliation of certain accounts. The underlying issues in the accounting program have been resolved so that account reconciliations can be performed in the program. Procedures are being implemented to ensure that all cash balances are reconciled in a timely manner.

Schedule of Findings and Responses
For the Year Ended December 31, 2014

2014-003 – Internal Controls over Information Technology - Commission on Aging (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting.

Condition. The accounting software utilized by the Commission on Aging (the "Commission") does not prevent the deletion or modification of posted transactions. Although there is an audit trail feature available in the software package, it is not currently being adequately utilized.

Cause. This condition is the result of management's initial lack of understanding of the importance of certain information technology controls.

Effect. As a result of this condition, the Commission lacks internal controls over the alteration of posted general ledger and other transactions. This exposes the Commission to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. Inasmuch as the County is now being provided with a monthly copy of the back-up file from the Commission's accounting software, and that the audit trail function in the Commission's software is activated, we recommend that the County implement a procedure to print and review the audit trail report periodically.

View of Responsible Officials. The Commission will implement policies and procedures requiring passwords to be changed and that the audit trail feature be utilized. Monthly general ledger reports will be provided to the Treasurer for account reconciliation.

Schedule of Findings and Responses

For the Year Ended December 31, 2014

2014-004 – Control Environment - Commission on Aging

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. As established in the basic principles of the Committee of Sponsoring Organizations (COSO) framework for internal control related to the control environment, management and those charged with governance should establish a control environment that: 1) demonstrates a commitment to integrity and ethical values, 2) exercises oversight responsibility, 3) establishes structure, authority and responsibility, 4) demonstrates commitment to competence, and 5) enforces accountability.

Condition. Through our risk assessment procedures, we became aware of certain questions regarding the conduct by the former Executive Director (ED) at the Commission on Aging (the "Commission").

The former ED had a disabled sister, who was not a senior citizen, and thus did not conform to the normal clientele of the Commission. Sometime during 2011 the foster home at which her sister was residing closed. In order to provide for her sister, a private home was located for her sister to live in along with another elderly person. She also applied for and was granted funding from the local Community Mental Health Authority (CMH) that provided for some of her sister's care needs. This funding did not involve the Commission. Because the CMH money did not cover the full cost of her sister's care, and Michigan Department of Human Services (DHS) funding that would cover the remainder of her sister's care was only available to organizations that were approved DHS vendors, which the Commission is, she revised Commission policy to allow it to provide in-home services to clients that were not seniors, and applied for DHS funding for her sister using the Commission, which was approved.

It appears that the former ED may have abused or misused the authority of her position, with the aid of a compliant board, that was recruited, interviewed and selected by Commission management, in order to provide services to a related client who did not did not conform to the normal clientele of the Commission.

Cause. The above situation was possible because the former ED had the ability to alter policies to fit her desired outcome without Commission board approval. This power was granted to her by the Commission board, either directly or implicitly. She was further able to accomplish this because the County Board of Commissioners were not properly informed about the operation of the Commission.

Effect. A control environment was established that did not conform to the basic principles as established by the COSO framework. As a result, Commission resources were used in a way that was inconsistent with its mission to serve seniors.

Recommendation. We recommend that the County Board of Commissioners take a more active role in the oversight of the Commission on Aging and implement policies and procedures ensuring that it remains properly informed of Commission activities and policy changes.

View of Responsible Officials. The County Board of Commissioners have taken steps to rectify the control environment at the Commission on Aging by revising the Commission on Aging bylaws and making it clear in the new bylaws that the separate Commission on Aging board is an advisory board only. Future board member selections will be made by the County Board of Commissioners. The former ED has retired as of January of 2015. The County Board of Commissioners is considering investigating the above alleged events.

Schedule of Findings and Responses
For the Year Ended December 31, 2014

2014-005 – Internal Controls over Unmet Needs Program - Commission on Aging (Repeated from Prior Year)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the Organization's assets, and to prevent or detect misstatements to the financial statements.

Condition. During our review of internal controls for the Commission on Aging, a special revenue fund of the County, we noted the following related to its Unmet Needs Program:

. Based on our review of policy and procedures, the term "unmet need" is not clearly defined.

. Current policies and procedures require that a qualifying unmet needs payment be accompanied by a form that is signed by both the Executive Director and Program Coordinator prior to payment. We noted one instance in which this control was bypassed and the unmet needs payment was made directly from petty cash.

. Unmet needs reimbursements are typically either paid directly to a vendor for payment of a client's expense or are paid to the client on a reimbursement-basis when accompanied by a supporting receipt. We noted several instances in which payments were made directly to a client and were not accompanied by a supporting receipt.

Cause. This condition is the result of management not recognizing the importance of establishing such controls.

Effect. As a result of this condition, the Commission the was exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. Inasmuch as the unmet needs policies and procedures were revised to address these shortcomings late in the fiscal year, no further corrective action is recommended at this time related to policies and procedures. We recommend that the new policies be communicated to program staff and that management take steps to periodically monitor adherence to the new policies.

View of Responsible Officials. New policies will be communicated to program staff and management will take steps to periodically monitor adherence to the new policies.

Rehmann

Rehmann Robson

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INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 25, 2015

Honorable Members of the
Board of Commissioners
Kalkaska County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *Kalkaska County, Michigan* (the "County") as of and for the year ended December 31, 2014, and have issued our report thereon dated June 25, 2015. We did not audit the financial statements of the Kalkaska County Road Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate the Kalkaska County Road Commission, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 12, 2015, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 25, 2015. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on April 2, 2015.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the County's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Responses issued in connection with our report on internal control over financial reporting.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the County's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the Kalkaska County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

Attachment A - Comments and Recommendations

For the December 31, 2014 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 25, 2015, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated June 25, 2015, on the financial statements of Kalkaska County, Michigan.

Internal Controls over Information Technology (IT) Access (repeat comment)

Employees are able to contact the County's IT Contractor to set-up, change and remove users from the network and financial accounting application without independent approval. We recommend that a formal change form be created and a policy implemented that requires the use of this form and that the form include signatures of the Department Head and a member of the IT Committee prior to granting the Contractor permission to make the change. This form should be forwarded to the Contractor as evidence of the approved change.

Accounting for Jail Commissary Funds and Discretionary Funds (repeat comment)

The County operates a small store for the benefit and use of its jail inmates. The profits from this operation are held as discretionary funds to support programs that benefit the jail or its inmates. These funds are currently accounted for in the County's trust and agency fund, a fund type intended only for balances held on behalf of outside parties. Since the discretionary funds are available for County use, and based on guidance of the Uniform Chart of Accounts issued by the Michigan Department of Treasury, we recommend accounting for the commissary activity in an enterprise fund. We also recommend that assets of the commissary fund be segregated from the inmate trust fund with separate bank accounts.

Budgetary Control (repeat comment)

It was not clear from the formally adopted budget document whether the Board intended to approve a line-item budget or a budget at the activity level as recommended by the State of Michigan Uniform Budgeting Manual. Since the budget represents a legal appropriation of public funds, and expenditures in excess of the budget are a violation of law, it is important that the Board adopt the budget at a level of detail that is manageable. We recommend that the Board be more explicit in the budget documentation to approve a budget at the activity level so as to not hold itself accountable for individual line-item variances.

Internal Controls over Debit Cards

The County utilized a debit card for certain purchases during 2014 made by employees of the County. Usage of the card was to be documented in a log, written receipts were to be turned in, and a reconciliation of bank statement was to be completed. We observed for 6 months during the year that the statement was not being reviewed or reconciled, the log was not being reviewed, and that there was no support for purchases during that time period. The County has since eliminated the use of debit cards and has formally adopted a new credit card usage policy which was begun in early 2015.

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Attachment B – Upcoming Changes in Accounting Standards / Regulations
For the December 31, 2014 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the County in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the County. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 68 ■ Accounting and Financial Reporting for Pensions
Effective 06/15/2015 (your FY 2015)

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 68 is only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a three year delay from these standards.

Attachment B – Upcoming Changes in Accounting Standards / Regulations
For the December 31, 2014 Audit

GASB 71 ■ Pension Transition for Contributions Made Subsequent to the Measurement Date
Effective with the Implementation of GASB 68

This standard is an amendment to GASB 68, and seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year.

GASB 72 ■ Fair Value Measurement and Application
Effective 06/15/2016 (your FY 2016)

This standard defines "fair value" as the price that would be received to sell an asset in an orderly transaction between market participants (an "exit price"). Fair value measurement is currently applied principally to investments, which GASB 72 does not change. However, it does introduce specific methods for measuring fair value when a market price is not readily available, and establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

2 CFR 200 ■ Uniform Guidance for Federal Awards
Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2016)

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed $750,000 (up from $500,000). The OMB has indicated that further changes to the single audit will be announced in 2015.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls that are consistent with the COSO framework and documented procedures for grant administration. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

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Attachment C – Management Representations

For the December 31, 2014 Audit

Following are the written representations that we requested from management.

Kalkaska County Board of Commissioners
County of Kalkaska

June 25, 2015

Rehmann Robson
107 S. Cass St., Suite A
Traverse City, MI 49684

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of ***Kalkaska County, Michigan***, (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund of the County in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 25, 2015:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 12, 2015, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

DEBORAH HILL, KALKASKA COUNTY CLERK
CLERK OF BOARD OF COMMISSIONERS
605 N. BIRCH ST • KALKASKA, MI 49646 • 231.258.3300, OPT 3 • dhill@kalkaskacourt.org

8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Special items and extraordinary items have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Information Provided

23. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have disclosed to you all information that we are aware of regarding fraud or suspected fraud that affects the entity and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
27. We have disclosed to you all information that we are aware of regarding allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
29. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

38. With respect to the supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

39. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Deborah Hill 6-24-15
Deborah Hill, County Clerk

Valerie Thornburg
Valerie Thornburg, County Treasurer

KALKASKA COUNTY, MICHIGAN

Schedule of Adjustments Passed (SOAP)

For the December 31, 2014 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
General fund					
Prior year Unreconciled accounts payable - corrected in 2014	$ -	$ -	$ 6,813	$ -	$ 6,813
Misstatement as a percentage of total expenditures - general fund	0.00%	0.00%	0.11%	0.00%	0.11%
Governmental activities					
Effect of not allocating a portion of the prior year net OPEB asset to business-type activities - corrected in 2014	-	-	(4,920)	-	(4,920)
Effect of prior year unrecorded loans - corrected in 2014	-	-	(16,357)	16,357	-
Total governmental activities	$ -	$ -	$ (14,464)	$ 16,357	$ 1,893
Misstatement as a percentage of total assets - governmental activities	0.00%	0.00%	-0.14%	0.16%	0.02%
Sportsplex Fund					
Effect of not allocating a portion of the prior year net OPEB asset to the Sportsplex fund - corrected in 2014	$ -	$ -	$ 4,920	$ -	$ 4,920
Misstatement as a percentage of total assets - sportsplex fund	0.00%	0.00%	0.08%	0.00%	0.08%